

**REPORT OF THE AUDIT OF THE
WASHINGTON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2001**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable John Settles, Washington County Judge/Executive
Honorable Tommy Bartley, Washington County Sheriff
Members of the Washington County Fiscal Court

The enclosed report prepared by Potter & Company, LLP, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Washington County, Kentucky, for the year ended December 31, 2001.

We engaged Potter & Company, LLP, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Potter & Company, LLC, evaluated the Washington County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
WASHINGTON COUNTY SHERIFF

For The Year Ended
December 31, 2001

Potter & Company, LLP has completed the Washington County Sheriff's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$3,006 from the prior calendar year, resulting in excess fees of \$9,755 as of December 31, 2001. Revenues increased by \$18,521 from the prior year and disbursements increased by \$15,515.

Report Comment:

- The Washington County Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

**WASHINGTON COUNTY, KENTUCKY
TOMMY BARTLEY, COUNTY SHERIFF**

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To the People of Kentucky

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Washington County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Washington County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Washington County Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2002, on our consideration of the Washington County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary,

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable John Settles, Washington County Judge/Executive

Honorable Tommy Bartley, Washington County Sheriff

Members of the Washington County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Washington County Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Potter & Company, LLP

POTTER & COMPANY, LLP

June 19, 2002

WASHINGTON COUNTY, KENTUCKY
TOMMY BARTLEY, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND EXCESS FEES
December 31, 2001

Receipts

State Grants		\$	10,841
State Fees for Services:			
Finance and Administration Cabinet	\$	3,044	
Cabinet for Human Resources		<u>3,578</u>	6,622
Circuit Court Clerk:			
Sheriff Security Service		6,815	
Fines and Fees Collected		<u>3,691</u>	10,506
Fiscal Court			38,414
County Clerk - Delinquent Taxes			463
Commission on Taxes Collected			93,443
Fees Collected for Services			
Auto Inspections		2,095	
Accident and Police Reports		79	
Serving Papers		<u>11,160</u>	13,334
Other			
Tax Penalty		11,072	
Reimbursements		5,475	
Carrying Concealed Deadly Weapon Permits		2,745	
Dog Tags/Miscellaneous		<u>862</u>	20,154
Interest Earned			1,884
Borrowed Money:			
State Advancement			<u>50,000</u>
Gross Receipts			\$ <u>245,661</u>

The accompanying notes are an integral part of the financial statement.

WASHINGTON COUNTY, KENTUCKY
TOMMY BARTLEY, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND EXCESS FEES (CONTINUED)
December 31, 2001

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services -

Deputies' Salaries	\$	84,487
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Part-Time Salaries		3,650
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Employee Benefits -

Employer's Share-Social Security		10,543
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Employer's Share-Retirement		1,541
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Materials and Supplies -

Office Materials and Supplies		3,760
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Auto Expense -

Maintenance and Repairs		1,613
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Other Charges -

Training		4,424
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Postage		2,814
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Carrying Concealed Deadly Weapon Permits		1,860
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Miscellaneous		1,801
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Capital Outlay -

Office Equipment	7,462	\$	123,955
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Debt Service:

State Advancement		50,000
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Total Disbursements		\$	173,955
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Net Receipts			71,706
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Statutory Maximum	(59,846)	
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Training Incentive	(2,105)	(61,951)
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Excess Fees Due County for Calendar Year 2001			9,755
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Payments to County Treasurer			(9,755)
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Balance Due At Completion of Audit		\$	-
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The accompanying notes are an integral part of the financial statement.

WASHINGTON COUNTY, KENTUCKY
TOMMY BARTLEY, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting:

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

Basis of Accounting:

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

Cash and Investments:

At the direction of the fiscal court, KRS 66.480 authorizes the Washington County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NOTE 2 - EMPLOYEE RETIREMENT SYSTEM

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5.00 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 7.17 percent for the first six months of the year and the 6.41 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 percent for the first six months and 16.28 percent for the last six months of the calendar year.

WASHINGTON COUNTY, KENTUCKY
TOMMY BARTLEY, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2001

NOTE 2 - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

NOTE 3 - DEPOSITS

The Washington County Sheriff maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Washington County Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Washington County Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of October 31, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$192,409 of public funds uninsured and unsecured.

The Washington County Sheriff's deposits are categorized below to give an indication of the level of risk assumed by the Washington County Sheriff as of October 31, 2001.

	<u>Bank Balance</u>
Insured or collateralized with securities held by pledging depository institution in the county official's name	\$ 1,103,750
Uncollateralized and uninsured	<u>192,409</u>
Total	\$ <u>1,296,159</u>

NOTE 4 – DRUG SEIZURE FUND

During calendar year 2001, the Washington County Sheriff's office opened and maintained a Drug Seizure Fund. Receipts for this fund are from the court ordered payments related to drug cases. These funds are reserved for items directly related to law enforcement and are not available for excess fee purposes. Receipts to this fund for 2001 were \$17,900, disbursements totaled \$25 leaving an unexpended balance of \$17,875 as of December 31, 2001. Items expended were directly related to law enforcement in compliance with KRS218A.

COMMENT AND RECOMMENDATION

**WASHINGTON COUNTY, KENTUCKY
TOMMY BARTLEY, COUNTY SHERIFF
COMMENT AND RECOMMENDATION**

For Year Ended December 31, 2001

STATE LAWS AND REGULATIONS:

The Washington County Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On October 31, 2001, \$192,409 of the Washington County Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend the Washington County Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

The agreement with the bank states the amount to be pledged. The agreement was signed by the bank President and included in their Board Meeting Minutes. The audit revealed the bank did not secure the collateral agreed to in the Collateral Securities Agreement. The bank failed to pledge what was agreed.

PRIOR YEAR:

None

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary, Finance
and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable John Settles, Washington County Judge/Executive

Honorable Tommy Bartley, Washington County Sheriff

Members of the Washington County Fiscal Court

We have audited the statement of receipts, disbursements, and excess fees of the County Sheriff of Washington County, Kentucky, for the year ended December 31, 2001, and have issued our report thereon dated June 19, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Washington County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Comment and Recommendation section.

- The Washington County Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Washington County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the People of Kentucky

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T. Kevin Flanery, Secretary,

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable John Settles, Washington County Judge/Executive

Honorable Tommy Bartley, Washington County Sheriff

Members of the Washington County Fiscal Court

This report is intended solely for the information and use of management and the Auditor of Public Accounts and is not intended to be and should not be used by anyone other than the specified parties.

A handwritten signature in black ink that reads "Potter & Company, LLP". The script is cursive and fluid, with the letters "P" and "C" being particularly large and stylized.

POTTER & COMPANY, LLP

June 19, 2002

